

Legislative Audit Division

State of Montana



Report to the Legislature

November 2002

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2002

Montana School for the Deaf and the Blind

The report contains two issues related to:

- ▶ Accounting errors and cash management.
- ▶ Collection of fees.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

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November 2002

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana School for the Deaf and the Blind for fiscal years 2000-01 and 2001-02. Included in this report are two recommendations addressing collection of fees and accounting errors and cash management.

The school's written response to the audit recommendations is included at the end of the audit report. We thank the superintendent and staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seecat", with a long horizontal flourish extending to the right.

Scott A. Seecat
Legislative Auditor



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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2002

Montana School for the Deaf and the Blind

Members of the audit staff involved in this audit were Chris G. Darragh,
John Fine, and Amber Long.

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Appointed and Administrative Officials

Board of Public Education

Judy Martz, Governor*
Linda McCulloch, Superintendent of Public Instruction*

Dr. Richard Crofts, Commissioner of Higher Education*

		<u>Term Expires</u>
Dr. Kirk Miller, Chairperson	Havre	2002
Diane Fladmo, Vice Chairperson	Glendive	2005
Storrs Bishop	Ennis	2003
Joyce Silverthorne	Dixon	2004
John Fuller	Whitefish	2008
Patty Myers	Great Falls	2007
Randy Morris	Butte	2006
Derek Duncan, Student Representative	Deer Lodge	2003

*ex officio members

Montana School for the Deaf and the Blind

Steve Gettel, Superintendent

Bill Davis, Principal

Bill Sykes, Business Manager

For additional information regarding the school contact:

Steve Gettel, Superintendent
Montana School for the Deaf and the Blind
3911 Central Avenue
Great Falls MT 59405-1697
Office: (406) 771-6000

e-mail: sgettel@sdb.state.mt.us

Montana School for the
Deaf and the Blind

This audit report is the result of our financial-compliance audit of the School for the Deaf and the Blind for the two fiscal years ended June 30, 2002. The report contains two recommendations addressing collection of fees and accounting errors and cash management.

We issued a qualified opinion on the financial schedules contained in the report. The opinion, located on page A-3, discusses misstatements of \$284,132 in expenditures and revenue. The reader should use caution when analyzing the presented financial information and supporting data on the Statewide Accounting, Budgeting and Human Resources System.

The listing below serves as a means of summarizing the recommendations contained in the report, the school's response thereto, and a reference to the support comments.

Recommendation #1

We recommend the school:

- A. Make entries transferring donations to the foundation in accordance with state accounting policy.

Agency Response: Concur. See page B-3.

- B. Draw federal funds throughout the year as expenditures are incurred to meet immediate cash needs.

Agency Response: Concur. See page B-3.

- C. Spend non-general fund money before spending general fund money as required by state law.4

Agency Response: Concur. See page B-3.

Report Summary

Recommendation #2

We recommend the school charge a fee for the services of the outreach counselors as required by section 20-8-102,

MCA 5

Agency Response: Concur. See page B-3.

Introduction

Introduction

We performed a financial-compliance audit of the Montana School for the Deaf and the Blind (school) for the two fiscal years ended June 30, 2002. The objectives of the audit were to:

1. Determine whether the school complied with applicable laws and regulations.
2. Make recommendations, if necessary, for improvement in the school's control structure.
3. Determine whether the school's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 2002.

This report contains two recommendations. We also noted areas of concern which we deemed not to have a significant effect on the operations of the school. These concerns are not specifically included in this report, but have been discussed with school management. The prior financial-compliance audit report for the two fiscal years ended June 30, 2000, contained no audit recommendations.

In accordance with section 5-13-307 (2), MCA, we analyzed and disclosed the cost, if significant and practical to obtain, of implementing the recommendations made in this report.

Background

At the end of fiscal year 2002 the School for the Deaf and the Blind had an enrollment of 77 students. There were 27 vision-impaired students and 50 hearing-impaired students that resided and attended class on the campus in Great Falls. There is approximately a 50/50 split between the grade school and the high school for both hearing-impaired and vision-impaired students. The school also provided assistance to approximately 175 vision-impaired students and 85 hearing-impaired students across the state through its outreach program.

Findings and Recommendations

Accounting Errors and Cash Management

The following section describes various areas in which the school's cash management and accounting are not in accordance with state law. State law requires the school to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles.

In addition, section 17-2-108, MCA, states an office or entity of the executive, legislative, or judicial branch of state government shall apply expenditures against appropriated non-general fund money whenever possible before using general fund appropriations. The following four paragraphs discuss issues we found that are not in compliance with these laws.

- ▶ The Montana School for the Deaf and the Blind Foundation manages investments of donations under an agreement with the school. School personnel track the donations received throughout the year and make one entry at fiscal year-end to record the transfer of funds to the foundation. The school collected \$142,066 in donation revenues in fiscal year 2000-01. School personnel recorded the donations as a reduction of revenue and the transfer to the foundation as a reduction of expenditures; as a result donation revenues and expenditures were each understated by \$284,132 in fiscal year 2000-01.
- ▶ The school receives federal funds for the Individuals with Disabilities Education Act (IDEA B Grant). The school recorded a prior year revenue adjustment of \$43,781 in fiscal year 2000-01 and one for \$7,419 in fiscal year 2001-02. The adjustments are a result of the school drawing funds in excess of the expenditures for the year. The revenues were understated in the Special Revenue Fund by the amount of revenue recorded but not earned in the previous years. Revenue should be recorded when grant expenditures are incurred and cash drawn to meet immediate cash needs.
- ▶ The school receives federal funds from the Individuals with Disabilities Education Act (IDEA B). This grant is used to pay salaries and travel for the outreach program and teachers' salaries at the school. School personnel charge these expenditures to the General Fund during the year. Near the end of the fiscal year, school personnel draw down federal cash to cover the expenditures. As a result, the General Fund

Findings and Recommendations

is covering the expenditures for the federal program until federal funds are requested.

- ▶ The school receives money each year for out-of-state students' tuition, which is recorded in the Special Revenue Fund. The revenues collected in fiscal years 2001 and 2002 were \$170,295 and \$111,459, respectively. Out-of-state tuition is statutorily appropriated for each fiscal year, but the school does not expend amounts equal to the revenue collected each year resulting in a remaining balance in the out-of-state tuition fund in the State Special Revenue Fund. School personnel stated that since this amount is statutorily appropriated they could spend the money when and where they need to, which allows them to carry a balance. At the end of fiscal year 2001-02 there was a remaining balance of \$42,246. Although out-of-state tuition is statutorily appropriated, the funds are appropriated for educational expenses, so section 17-2-108, MCA applies.

Recommendation #1

We recommend the school:

- A. Make entries transferring donations to the foundation in accordance with state accounting policy.**
- B. Draw federal funds throughout the year as expenditures are incurred to meet immediate cash needs.**
- C. Spend non-general fund money before spending general fund money as required by state law.**

Collection of Fees

The school employs five outreach counselors throughout the state. Upon request, the outreach counselors visit school districts within their assigned region to assess and assist hearing and visually impaired children. The outreach counselors serve approximately 365 children statewide.

Prior to 1993, the services of the outreach counselors were provided without charge. During the 1993 Legislative Session, section 20-8-102, MCA, was modified to require the school to collect a fee to cover the costs for the services of the outreach counselors. According to school officials, when the school charged for these

Findings and Recommendations

services during fiscal year 1992-93, the requests for the services of the outreach consultants decreased significantly. School personnel indicated that as a result of this fee the children were not receiving the help needed. As a result, the school eliminated the fee for these services the following year so schools would use the services provided by the consultants to benefit their students. Since the law, as originally enacted, did not include a fee and made outreach services available without charge, the school may consider proposing legislation to remove the requirement to charge a fee for the outreach services.

Recommendation #2

We recommend the school charge a fee for the services of the outreach counselors as required by section 20-8-102, MCA.

Independent Auditor's Report & School Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana School for the Deaf and the Blind for each of the fiscal years ended June 30, 2001 and 2002. The information contained in these financial schedules is the responsibility of the school's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the school's assets and liabilities.

The school improperly recorded donations as negative revenue and the transfer of donations to its foundation as a reduction of expenditures in the Expendable Trust Fund on the Schedule of Changes in Fund Balances in fiscal year 2000-01. As a result, Nonbudgeted Revenues and Transfers-In and Nonbudgeted Expenditures and Transfers-Out are each understated by \$284,132 in the Expendable Trust Fund on the Schedule of Changes in Fund Balances for the fiscal year ended June 30, 2001. In addition, grants, contracts, donations and abandonments revenue is understated by \$284,132 for fiscal year ended June 30, 2001, on the Schedule of Total Revenues and Transfers-In. Other expenses are understated on the Schedule of Total Expenditures and Transfers-Out, in the Education program, for the fiscal year ended June 30, 2001.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Montana School for the Deaf and the Blind for each of the fiscal years ended June 30, 2001 and 2002, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

September 6, 2002

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MONTANA SCHOOL FOR THE DEAF AND THE BLIND
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	Special Revenue Fund	Agency Fund
FUND BALANCE: July 1, 2001	\$ <u>(308,120)</u>	\$ <u>287,724</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: July 1, 2001			\$ <u>13,188</u>
 ADDITIONS			
Budgeted Revenues & Transfers-In	14,091	586,931	
NonBudgeted Revenues & Transfers-In	339	59,611	
Prior Year Revenues & Transfers-In Adjustments		(25,340)	
Direct Entries to Fund Balance	3,558,174	40	
Additions To Property Held in Trust			49,238
Total Additions	<u>3,572,604</u>	<u>621,242</u>	<u>49,238</u>
 REDUCTIONS			
Budgeted Expenditure & Transfers-Out	3,566,347	608,130	
NonBudgeted Expenditure & Transfers-Out		59,611	
Prior Year Expenditure & Transfers-Out Adjustments	(2,397)		
Reductions in Property Held in Trust			50,673
Total Reductions	<u>3,563,950</u>	<u>667,741</u>	<u>50,673</u>
 FUND BALANCE: June 30, 2002	\$ <u>(299,466)</u>	\$ <u>241,225</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: June 30, 2002			\$ <u>11,753</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA SCHOOL FOR THE DEAF AND THE BLIND
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund	Special Revenue Fund	Agency Fund	Expendable Trust Fund
FUND BALANCE: July 1, 2000	\$ (254,810)	\$ 235,323	\$ 0	\$ 23,324
PROPERTY HELD IN TRUST: July 1, 2000			\$ 10,370	
ADDITIONS				
Budgeted Revenues & Transfers-In	17,480	547,309		
NonBudgeted Revenues & Transfers-In	152	91		(142,066)
Direct Entries to Fund Balance	3,367,203			
Additions To Property Held in Trust			36,260	
Total Additions	<u>3,384,835</u>	<u>547,400</u>	<u>36,260</u>	<u>(142,066)</u>
REDUCTIONS				
Budgeted Expenditure & Transfers-Out	3,438,089	491,057		
NonBudgeted Expenditure & Transfers-Out				(165,389)
Prior Year Expenditure & Transfers-Out Adjustments	56	3,942		46,647
Reductions in Property Held in Trust			33,442	
Total Reductions	<u>3,438,145</u>	<u>494,999</u>	<u>33,442</u>	<u>(118,742)</u>
FUND BALANCE: June 30, 2001	\$ <u>(308,120)</u>	\$ <u>287,724</u>	\$ <u>0</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: June 30, 2001			\$ <u>13,188</u>	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA SCHOOL FOR THE DEAF AND THE BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Taxes	\$ 339	\$ 157,629	\$ 163,704
Charges for Services	6,075		290
Sale of Documents, Merchandise and Property	290		6,789
Rentals, Leases and Royalties		6,789	7,726
Miscellaneous	7,726		59,611
Grants, Contracts, Donations and Abandonments		59,611	280,385
Other Financing Sources		280,385	110,714
Federal		110,714	6,074
Federal Indirect Cost Recoveries		6,074	635,632
Total Revenues & Transfers-In	14,430	621,202	59,950
Less: Nonbudgeted Revenues & Transfers-In	339	59,611	(25,340)
Prior Year Revenues & Transfers-In Adjustments	0		586,931
Actual Budgeted Revenues & Transfers-In	14,091	586,931	601,022
Estimated Revenues & Transfers-In	12,047	535,938	547,985
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 2,044	\$ 50,993	\$ 53,037
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Charges for Services	\$ 228	\$ 8,629	8,857
Sale of Documents, Merchandise and Property	(910)		(910)
Rentals, Leases and Royalties		2,724	2,724
Miscellaneous	2,726		2,726
Other Financing Sources		58,306	58,306
Federal		(18,894)	(18,894)
Federal Indirect Cost Recoveries		228	228
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 2,044	\$ 50,993	\$ 53,037

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA SCHOOL FOR THE DEAF AND THE BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	Special Revenue Fund	Expendable Trust Fund	Total
Taxes	\$ 152	92		\$ 244
Charges for Services	5,865	191,326		197,191
Sale of Documents, Merchandise and Property	346			346
Rentals, Leases and Royalties		4,868		4,868
Miscellaneous	11,269			11,269
Grants, Contracts, Donations and Abandonments				(142,066)
Other Financing Sources		279,140	\$ (142,066)	279,140
Federal		66,110		66,110
Federal Indirect Cost Recoveries		5,864		5,864
Total Revenues & Transfers-In	<u>17,632</u>	<u>547,400</u>	<u>(142,066)</u>	<u>422,966</u>
Less: Nonbudgeted Revenues & Transfers-In	152	91		(141,823)
Actual Budgeted Revenues & Transfers-In	<u>17,480</u>	<u>547,309</u>	<u>0</u>	<u>564,789</u>
Estimated Revenues & Transfers-In	9,400	473,794	0	483,194
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 8,080</u>	<u>\$ 73,515</u>	<u>\$ 0</u>	<u>\$ 81,595</u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services	\$ 265	\$ 81,327		81,592
Sale of Documents, Merchandise and Property	(454)			(454)
Rentals, Leases and Royalties		1,368		1,368
Miscellaneous	8,269			8,269
Other Financing Sources		58,140		58,140
Federal		(67,584)		(67,584)
Federal Indirect Cost Recoveries		264		264
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 8,080</u>	<u>\$ 73,515</u>	<u>\$ 0</u>	<u>\$ 81,595</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA SCHOOL FOR THE DEAF AND THE BLIND
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	ADMINISTRATION PROGRAM	EDUCATION	GENERAL SERVICES PROGRAM	STUDENT SERVICES	Total
PROGRAM (SUB-CLASS) EXPENDITURES & TRANSFERS-OUT					
Personal Services					
Salaries	\$ 191,360	\$ 1,680,810	\$ 88,450	\$ 588,899	\$ 2,549,519
Employee Benefits	49,268	498,282	38,344	249,778	835,672
Total	<u>240,628</u>	<u>2,179,092</u>	<u>126,794</u>	<u>838,677</u>	<u>3,385,191</u>
Operating Expenses					
Other Services	40,191	34,735	25,633	1,621	102,180
Supplies & Materials	2,921	123,585	17,738	67,966	212,210
Communications	18,813	24,303	68	1,511	44,695
Travel	1,875	24,516		29,862	56,253
Rent		4,203	350	3,097	7,650
Utilities		3,974	142,180		146,154
Repair & Maintenance	155	76,608	13,342	740	90,845
Other Expenses	18,057	85,633	227	632	104,549
Total	<u>82,012</u>	<u>377,557</u>	<u>199,538</u>	<u>105,429</u>	<u>764,536</u>
Equipment & Intangible Assets					
Equipment		26,987		28,802	55,789
Total		<u>26,987</u>		<u>28,802</u>	<u>55,789</u>
Capital Outlay					
Buildings		26,175			26,175
Total		<u>26,175</u>			<u>26,175</u>
Total Expenditures & Transfers-Out	\$ <u>322,640</u>	\$ <u>2,609,811</u>	\$ <u>326,332</u>	\$ <u>972,908</u>	\$ <u>4,231,691</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund	\$ 322,640	\$ 1,969,822	\$ 326,332	\$ 945,156	\$ 3,563,950
Special Revenue Fund		639,989		27,752	667,741
Total Expenditures & Transfers-Out	<u>322,640</u>	<u>2,609,811</u>	<u>326,332</u>	<u>972,908</u>	<u>4,231,691</u>
Less: Nonbudgeted Expenditures & Transfers-Out		59,611			59,611
Prior Year Expenditures & Transfers-Out Adjustments			(2,397)		(2,397)
Actual Budgeted Expenditures & Transfers-Out	<u>322,640</u>	<u>2,550,200</u>	<u>328,729</u>	<u>972,908</u>	<u>4,174,477</u>
Budget Authority	346,390	2,598,938	328,729	972,909	4,246,966
Unspent Budget Authority	\$ <u>23,750</u>	\$ <u>48,738</u>	\$ <u>0</u>	\$ <u>1</u>	\$ <u>72,489</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund	\$ 23,750	\$ 1	\$ 0	\$ 1	\$ 23,752
Special Revenue Fund		48,737			48,737
Unspent Budget Authority	\$ <u>23,750</u>	\$ <u>48,738</u>	\$ <u>0</u>	\$ <u>1</u>	\$ <u>72,489</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTNANA SCHOOL FOR THE DEAF AND THE BLIND
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	PROGRAM (SUB-CLASS) NOT SPECIFIED	ADMINISTRATION PROGRAM	EDUCATION	GENERAL SERVICES PROGRAM	STUDENT SERVICES	Total
PROGRAM (SUB-CLASS) EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries		\$ 200,262	\$ 1,588,541	\$ 85,276	\$ 593,158	\$ 2,467,237
Hourly Wages						
Employee Benefits		55,977	444,541	30,374	229,591	760,483
Total		<u>256,239</u>	<u>2,033,082</u>	<u>115,650</u>	<u>822,749</u>	<u>3,227,720</u>
Operating Expenses						
Other Services		44,839	17,172	28,738	5,679	96,428
Supplies & Materials		4,134	83,164	26,219	69,104	182,621
Communications		12,923	23,864	84	263	37,134
Travel		955	18,855	45	49,845	69,700
Rent			1,255	105	7,147	8,507
Utilities			3,028	167,545		170,573
Repair & Maintenance		956	35,293	24,143	426	60,818
Other Expenses	\$ (120,408)	21,934	(126,754)	4,326	76	(220,826)
Total	<u>(120,408)</u>	<u>85,741</u>	<u>55,877</u>	<u>251,205</u>	<u>132,540</u>	<u>404,955</u>
Equipment & Intangible Assets						
Equipment	143,732		14,290			158,022
Total	<u>143,732</u>		<u>14,290</u>			<u>158,022</u>
Capital Outlay						
Buildings			22,770	935		23,705
Total			<u>22,770</u>	<u>935</u>		<u>23,705</u>
Total Expenditures & Transfers-Out	\$ <u>23,324</u>	\$ <u>341,980</u>	\$ <u>2,126,019</u>	\$ <u>367,790</u>	\$ <u>955,289</u>	\$ <u>3,814,402</u>
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund		\$ 341,980	\$ 1,799,217	\$ 367,790	\$ 929,158	\$ 3,438,145
Special Revenue Fund			468,868		26,131	494,999
Expendable Trust Fund	\$ 23,324		(142,066)			(118,742)
Total Expenditures & Transfers-Out	<u>23,324</u>	<u>341,980</u>	<u>2,126,019</u>	<u>367,790</u>	<u>955,289</u>	<u>3,814,402</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(23,323)	0	(142,066)			(165,389)
Prior Year Expenditures & Transfers-Out Adjustments	46,647	62	3,942	(6)		50,645
Actual Budgeted Expenditures & Transfers-Out	<u>0</u>	<u>341,918</u>	<u>2,264,143</u>	<u>367,796</u>	<u>955,289</u>	<u>3,929,146</u>
Budget Authority	<u>0</u>	<u>348,972</u>	<u>2,352,902</u>	<u>376,467</u>	<u>955,319</u>	<u>4,033,660</u>
Unspent Budget Authority	\$ <u>0</u>	\$ <u>7,054</u>	\$ <u>88,759</u>	\$ <u>8,671</u>	\$ <u>30</u>	\$ <u>104,514</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund		\$ 7,054		\$ 8,671	\$ 30	\$ 15,755
Special Revenue Fund			88,759			88,759
Unspent Budget Authority	\$ <u>0</u>	\$ <u>7,054</u>	\$ <u>88,759</u>	\$ <u>8,671</u>	\$ <u>30</u>	\$ <u>104,514</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11. beginning on page A-11.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2002

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The Montana School for the Deaf and the Blind (school) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Fund category. In applying the modified accrual basis, the school records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the school incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the school to record the cost of employees' annual leave and sick leave when used or paid.

The school uses accrual basis accounting for its Fiduciary Fund category. Under the accrual basis, as defined by state accounting policy, the school records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the school received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Notes to the Financial Schedules

The 2001 Legislature modified the fund structure established in section 17-2-102, MCA, to implement the changes made to generally accepted accounting principles (GAAP) by Governmental Accounting Standards Board (GASB) Statement 34. These changes were effective July 1, 2001. School accounts are organized in funds according to state law applicable at the time transactions were recorded. The school uses the following funds.

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. School Special Revenue Funds include School Trust Interest/Income, U.S. Department of Education grants, U.S. Department of Agriculture grants, and donations which are transferred from the school to the school foundation. In fiscal year 2001 the donation activity was reported in an Expendable Trust Fund.

Fiduciary Fund Category

Agency Funds - to account for resources held by the state in a custodial capacity. The school agency fund is used to account for student moneys.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The school's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2001 and June 30, 2002.

3. Expenditure Program (Sub-Class)

The program designations in the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2001 are based on the sub-class designation used when the expenditures were recorded. State officials did not require agencies to code non-budgeted expenditure transactions with a sub-class identifying its program

Notes to the Financial Schedules

until September of fiscal year 2000-01. This non-budgeted activity is included in the column titled Program (Sub-Class) Not Specified on the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2001.

4. Direct Entries to Fund Balance

Direct entries to fund balance in the General Fund in fiscal years 2000-01 and 2001-02 include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The amounts shown in these financial schedules reflect support provided to the school by the General Fund.

5. Foundation

The Montana School for the Deaf and the Blind Foundation is to receive, hold, manage, use, and dispose of real and personal property given to the school, the board, or the state of Montana on behalf of the school, by purchase, gift, devise, bequest, or as otherwise acquired. The proceeds, interest, and income thereof are to be used for the benefit of the school. The foundation activity is not reflected on the accompanying financial schedules. The foundation reported it expended \$149,668 and \$207,244 in support of the school during fiscal years 2000-01 and 2001-02, respectively.

6. Prior Year Revenue Adjustment

The school made errors in the recording of equipment in fiscal year 1999-2000. These errors were corrected during fiscal year 2000-01, which resulted in nonbudgeted negative \$120,408 in other expenses as reported on the Schedule of Total Expenditures & Transfers-Out under the Program (sub-class) Not Specified column. This negative expenditure was a loss on equipment and was necessary to correct the errors in fiscal year 1999-2000.

School Response

SCHOOL FOR THE DEAF AND THE BLIND



STATE OF MONTANA

3911 CENTRAL AVENUE
GREAT FALLS, MT 59405-1697

Administration: (406) 771-6000
Education: (406) 771-6030
FAX: (406) 771-6164
TDD: (406) 771-6063

October 25, 2002

Scott A. Seacat
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

Presented below is the schools' response to recommendations contained in your financial compliance audit for the two fiscal years ended June 30, 2002.

Recommendation #1: We recommend the school:

- A. Make entries transferring donations to the foundation in accordance with state accounting policy.
- B. Draw federal funds throughout the year as expenditures are incurred to meet immediate cash needs.
- C. Spend non-general fund money before spending general fund money as required by state law.

Response: We concur with A,B and C. Concerning item C, the school has managed tuition collected on out-of-state students to fund expenditures primarily for capital improvements, utilities, and maintenance that exceeded the schools' budget in House Bill 2. Through careful stewardship of this revenue source, MSDB was able to pay for these critical needs, avoiding having to come in and request a general fund supplemental.

Recommendation #2: We recommend the school charge a fee for the for the services of the outreach counselors as required by section 20-8-102, MCA.

Response: Concur. The school is seeking legislation to change this statute.

Scott A. Seacat
Page 2

I want to thank you and your staff. It was a pleasure working with Chris Darragh and Amber Long from your staff. Please contact Bill Sykes at (406)771-6002, if you have any questions.

Sincerely,

A handwritten signature in cursive script, reading "Steve Gettel". The signature is written in dark ink and is positioned above a horizontal line.

Steve Gettel, Superintendent

